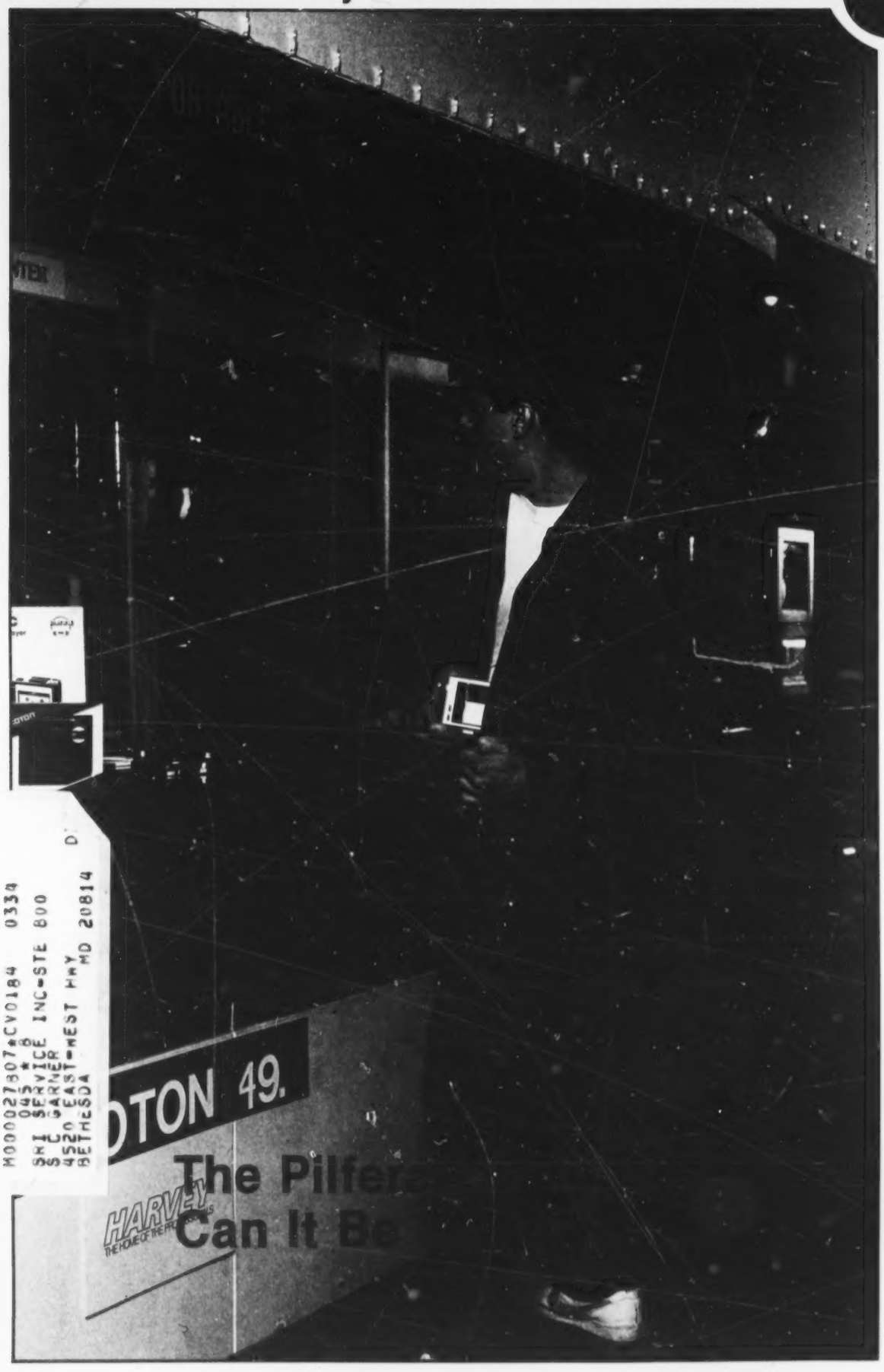
July 1984

MART® 84

Business Ideas Today's Retailer Needs to Know

A Gordon Publication



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- How Dealers Advertise: Not on Price Alone

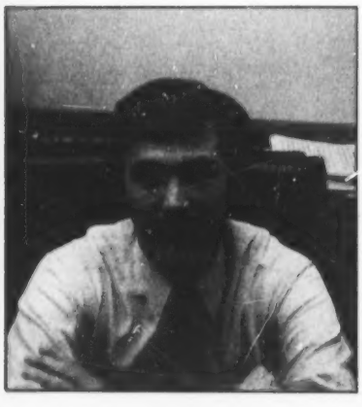
ELECTRONICS 84

- Audio/Video Boundaries Growing More Blurred
- The Cordless-Phone Chaos: Getting Better . . . Or Worse?
- 'Edutainment' Hot Area in Computer Software

APPLIANCES 84

- Pre-Season Sales Mixed for Room Air
- What Will You Sell in the Year 2000?

Spotlight:
Gemco's Joe Naughton



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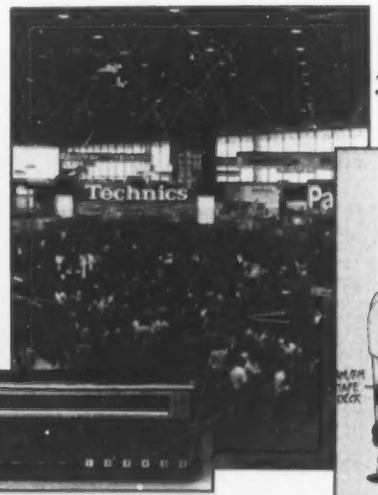

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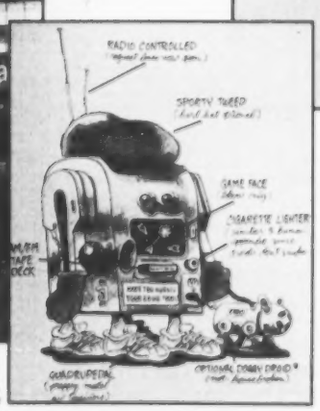

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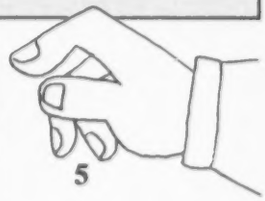

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Cover photograph by Rick Barrick

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Group Publisher
Martin Akel

EDITORIAL

Editor-in-Chief, Associate Publisher
Cathy Ciccolella
9 E. 38th St., New York, NY 10016
(212) 725-0530

Managing Editor
Leslie A. Azia

Associate Editor
Jim Robins

West Coast Editor
Elliot King
(714) 669-1990

Contributing Editors
John Foster, Art Weinberg, Jack Blood, Lois Panosh

Art Director
Kathleen Pine

SALES

New York
Judith L. Miller
National Sales Manager
(212) 725-0530

Chicago
George Stevens
4825 N. Scott St. #62,
Schiller Park, IL 60176
(312) 671-2430

West Coast
Gene Raymond Monteleone
17621 Irvine Blvd., Suite 201,
Tustin, CA 92680
(714) 669-1990

Production Manager
Lee McCracken
(201) 361-9060

Circulation Manager
Mary Kuroda

Chairman of the Board
Theodore E. Gordon
President
Kenneth M. Nelson

ELECTRONICS 84

Big CES News in Video? It's Audio!

Stereo-ready TV sets and hi-fi VCRs claim video spotlight

At the Summer Consumer Electronics Show in Chicago last month, the big news in video was audio.

From major product pushes for VHS Hi-Fi and Beta Hi-Fi to stereo-ready TV, video manufacturers made it clear they expect video with enhanced audio capabilities to make a loud noise at the cash register for retailers this year.

It was more than dynamic-sounding new video products that had manufacturers feeling bullish about 1984 sales prospects. In both color TV and video cassette recorders, the industry is already posting sales figures substantially beyond earlier estimates. Industry insiders were predicting a 15.5- to 15.8-million-unit year for color TV . . . but if sales continue at current rates that figure could end up closer to the 17-million-unit mark.

VCRs, continuing their dynamic growth into the consumer mainstream, are running at an annualized rate one million units higher than early projections, and should easily hit the seven-million-unit mark by year-end.

RCA Consumer Electronics, for *[Continued on page 36]*

It Just Keeps Getting Bigger . . .

More than 98,000 people visited more than 1,300 exhibits at last month's Consumer Electronics Show; next year, 100,000. . .?

Last month's CES attracted more than 98,000 to view audio/video marriage rites

With the lines between audio and video products continuing to blur, retailers attending last month's mammoth Consumer Electronics Show in Chicago at times had trouble telling if they were in an audio manufacturer's booth looking at video products or at a video company's space checking out the latest in audio equipment.

With virtually every major television manufacturer now including stereo-ready models in its line, and with hi-fi video cassette recorders proliferating in both the VHS and Beta formats, the sound of music was commonplace at most video exhibits. And a number of audio suppliers showed off new receivers incorporating TV-audio tuners and adap- *[Continued on page 38]*

Phone Suppliers Mixed on Cordless Outlook

But all manufacturers agree sales of phones in general will soar this year

By the end of 1984, according to AT&T, about half the telephones being used by U.S. consumers will be owned, rather than leased. But who will be selling those telephones, and what types of phones will consumers be buying?

At last month's Consumer Electronics Show, telecommunications retailers were looking for answers to those questions, and also to the shorter-term question of what will happen to the cordless-phone market now that the new models using the expanded 46/49 MHz frequencies are moving into the distribution pipelines. For the most part, the responses they got from telephone suppliers reflected optimism about the second-half outlook, along with some acknowledgement that the retail picture for telephones is changing, with sales of at least basic models moving more heavily *[Continued on page 34]*

Computer-Software Moves Toward 'Edutainment'

Major software players jockey for second-half position; no one likely to dominate

The Chicago edition of the Consumer Electronics Show has almost split into two distinct dramas.

Manufacturers in traditional product categories—audio, television, video—bring their offerings to that Parthenon of brown-tinted glass, McCormick Place, with some spillover into McCormick Inn. And just down the road, almost like a self-enclosed, and self-absorbed, monastery, McCormick West provides a haven for those who till the field of home computing.

Last month, though Atari described its own press conference unveiling a new line of software as "the day the future began," the home-computer industry surfaced not with its usual hype and sizzle, but instead as a category in which the major players for the near-term have passed their rites of initiation and begun to jockey for position.

Who are the software majors? They fall into three categories. First come the dominant hardware manufacturers in the home channel, Commodore and Atari.

According to the president of Commodore's software division, Sigmund Hartmann, that company did more than $100 million in software sales in 1983, and expects to do better this year. And Atari's third-party software-publishing division, Atarisoft, released 10 arcade hits and two original programs for the Commodore 64 and the Vic 20.

Successful start-ups also hold an important position in the market. Human Engineered Software, Broderbund, The Scarborough System, Creative Software, Spinnaker, and others have secured niches and reputations in the home market. Said retailer Sonny Cohen, president of Video, Etc. in Deerfield, IL, after surveying many CES booths displaying software, "There is a lot of exciting, creative software here."

Finally, book publishers such as Random House, Prentice Hall, and Hayden, and other conglomerates such as CBS, have begun to make their presence felt. One newcomer, Mindscape, a division of SFN, has taken a very aggressive position within the industry.

One reason all the players have been able to begin to implement strategies instead of playing catch-as-catch-can—which is often the case—is that the rules of the game seem set, at least through the fall.

Commodore announced last month that it would finally usher to market the home computer it showed first at the Winter CES, now renamed the Plus/4. That and its sister Commodore 16 were the only new com- *[Continued on page 44]*

Audio Industry Prepares for Digital and A+V

The leading audio manufacturers are growing at a rate in excess of 25 percent this year, with most of the sales activity in both one-brand and component systems. And while quality sound reproduction and size still remain an issue, the audio industry is moving toward a melding with video. The compact disc is here, digital is just beginning to impact, and the marriage of audio and video will shortly reach culmination. For an in-depth market analysis of the audio industry, turn to page 38.

Phone Suppliers' Outlook Is Mixed. . .

[Continued from page 33]
through mass-market channels.

The outlook for the cordless business is decidedly mixed, however, with some suppliers keeping a rosy view of the transition to the new-frequency models while others see continued chaos ahead in cordless.

Industry sales projections — both those released by the show-sponsoring Electronic Industries Assn.'s Consumer Electronics Group and by Al Franks, sales vice president-retail accounts, for AT&T Consumer Products, in his keynote address at the CES telephone conference — reflect an anticipated boom in telephone sales generally, for this year and beyond.

The EIA/CEG estimates call for sales to dealers of 31.1 million telephones this year, for a dollar value of $1.24 billion. Of those units, 6.1 million are expected to be cordless phones, with the remaining 25 million corded models. For next year, the EIA/CEG sees the industry selling 28 million corded phones and 6.5 million cordless units.

Comdial VP John Forbes showed the firm's first cordless phones at CES.

Dynascan President Frank DiLeo has a new cordless-upgrade program.

Conair's Logan Davis sees 46/49 MHz cordless as a tough sell on price.

Larry Reichenstein, Webcor VP, sees a cordless-replacement market due.

TOTAL TELEPHONES

	Total Sales to Dealers in Units (Thousands)	Total Factory Sales in Dollars (Millions)	Average Value (Dollars per Unit)
1982	5,700	400	70
1983	19,700	925	47
1984	31,100	1,240	40
1985	34,500	1,475	43

Source: EIA/CEG

AT&T's estimates — reflecting retail, rather than factory, sales — call for a total volume of 26.9 million telephones this year, for a retail dollar volume of $1.4 billion.

According to Franks, that total 1984 retail sales figure will be made up of 9.8 million basic telephones (36.4 percent of the total), 7.5 million one-piece phones (27.9 percent), 5.5 million cordless units (20.5 percent), 2.8 million functional phones (10.4 percent), and 1.3 million decorator models (4.8 percent).

"While the prospect of paralleling the growth we have seen since 1982 will be difficult, the opportunity does exist for continued high volume and revenue in both the near and long term," he added.

Other telecommunications suppliers agreed. While acknowledging that telephone sales in the first half had slowed — "a downturn predictable in a high-tech business" — Dynascan President Frank DiLeo said he sees the market as "surely poised for a significant rebound; it will grow and pick up steam."

As for the cordless-phone market specifically, "consumers still want cordless phones, even though they've had some bad publicity," DiLeo told MART. "Retailers have been continuing to sell them all along."

DiLeo estimates that from 3 to 4 million cordless phones using the 49/1.7 MHz frequencies are currently in inventory; to help build consumer and dealer confidence in the cordless category in general, Dynascan's Cobra Consumer Products division unveiled a new "purchasers' satisfaction program" at the CES. Consumers who buy any of Cobra's 10 current-frequency cordless models between July 1 and December 31 and decide they are having problems with them can return them with proof of purchase to Cobra and upgrade to a 46/49 MHz model for only $49.95, directly from the company.

Also expecting the cordless-phone market to rebound is Roy Mulhall, executive vice president of Uniden's consumer-products operation. "Now is the time for cordless to move forward," he declared. "And with full manufacturer support and aggressive marketing by retailers, it will."

(Uniden also announced shortly before the show that it had acquired the Bearcat scanner line from Electra Co., and will market the Bearcat scanners effective immediately.)

The prospect of a replacement market for cordless phones is now opening up with the arrival of the 46/49 MHz models, leading some early cordless buyers to trade up. "Anyone who bought a cordless phone before 1983 is now ready for a new one," said Larry Reichenstein, Webcor vice president. "I see a big replacement market developing."

However, Reichenstein added, the basic telephone will continue to be the heart of the market, despite all the attention being paid to cordless: "If a customer wants all the convenience features, he or she should buy a corded phone, and use a cordless as an extra extension, to receive calls." He feels two-line phones will be an especially fast-growing category

Cellular Phones: Next Hot Category?

Few cities in the country have cellular/mobile phone service now, and only about 30 markets are expected to have it by the end of the year . . . but telecommunications suppliers exhibiting at last month's Consumer Electronics Show turned out in force with cellular models, to show they will be ready when the market will.

Cellular-phone models turned up from a variety of car-stereo manufacturers as well, including Alpine, Grundig, Audiovox, and ARA. And telecommunications giant AT&T devoted a large segment of its exhibit to cellular, complete with a map of the country with flashing lights indicating current and proposed locations for cellular service.

During the CES telephone conference, Al Franks of AT&T Consumer Products predicted sales of about 200,000 cellular/mobile phones this year, with estimates of cellular unit sales ranging from 1.5 to 4.5 million by 1990.

'The time for sale at the retail level is not that far off,' Franks said. 'The key to retailers' entering the business early on will be the ability to provide one-stop shopping for their customers, including installation, arrangement of dial-tone service, and maintenance service.'

. . .On Second-Half Cordless Sales

this fall, with "more affluent, more astute" consumers buying them.

Also focusing on basic phones for the second half — but on basics with a difference — is Comdial.

"We're in the process of redefining what is a 'basic' telephone," Comdial Vice President John Forbes told MART. "Everybody wants the hold and redial features — those are becoming the basic features, and we will have them on all our new phones from here on."

And while other companies are bailing out of the cordless-phone business, Comdial is making its first move *into* that market.

"Retailers are still confused about cordless," Forbes said. "But we are positioning ourselves at the high end, with a two-model Ranger cordless line due in October, priced at $179 and $229. We think the market for 46/49 MHz cordless phones won't really develop until later in the year, and at that point we'll be ready to make an impact."

But how strongly will that new-frequency-cordless market develop? Not all suppliers feel the 46/49 MHz models will catch on that quickly, because of pricing chaos and consumer uncertainty.

"We see the cordless marketplace in 1984 and 1985 as being very difficult," said Howard Laffler, president of distribution operations for ITT Telecom. "Currently mass confusion exists among consumers — they are finding themselves faced with a wide variety of prices for essentially the same features between the old- and new-frequency models. Education is really needed at the point of sale to say why the new cordless phones are more expensive."

Agreed Marty Levine, national sales manager for GTE's retail telephone operation, "There will be a slowdown in cordless sales until the confusion is sorted out. The consumer wants more than just new frequencies as a reason to spend extra money."

And what's ahead for the old-frequency models? "There will certainly be some dumping of the 49/1.7 MHz models," predicted Bob Winkler, president of Teleconcepts, "but that's not all. The industry will soon be faced with a glut of 46/49 MHz cordless phones because of excess overseas production, and there's already talk about lowering prices on those models. As the suppliers overseas get nervous, dumping will take place on the new units as well."

Although Conair is not in the cordless-phone market, and will not be this year, Logan Davis, group vice president, consumer electronics, is keeping an eye on the market.

"I still believe in the category," he told MART, "but my personal estimate is that since between 1.2 and 2 million old-frequency cordless phones are still in the country waiting to be sold, we won't see the end of pricing pressure on those models until the end of the year. And then what is the consumer going to do? There's nothing wrong with the old-frequency phones, and if the customer sees a 1,000-ft. cordless phone with good features being sold for $39, the retailer is going to have a tough time talking that customer up to paying a lot more for a new-frequency model."

Not all suppliers anticipate dumping of the current-frequency models and dumping and/or pricing cuts on the newer cordless units, however.

"We see prices holding so far on the new-frequency models, and we expect that to continue," said Dynascan's DiLeo. And Franks of AT&T commented, "The old-frequency phones can continue to be sold by retailers and used by consumers indefinitely. There seems to be no reason, then, for quick disposition of the inventory of old-frequency phones. A reasonable balancing of old- and new-frequency models, coupled with sales events and promotions to clear out the old models, should work." □ CATHY CICCOLELLA

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AT&T

Audio Was the Big News in Video

[Continued from page 33]
example, is forecasting industry sales of more than seven million VCRs this year, an increase of more than 70 percent over 1983 totals, with five million of those units coming in the VHS format. The average retail price of a VCR today is about $750, according to Steve Stepnes, RCA division vice president, marketing, so the dollar-sales total for this year could surpass $5.25 billion.

In both VCR and color TV, manufacturers at the Summer CES were talking about major opportunities throughout the second half for retailers to cash in on the trade-up market.

"I think you're going to see a sizable surge towards higher-end sales, especially in VCRs," opined Stan Hametz, general manager, consumer video, at Panasonic. "VHS Hi-Fi is going to be a real attention-getter. It might only account for 5 percent of unit sales industrywide, but dollarwise, being a high-ticket item, it will represent a lot more."

"Our research shows the second-most-important thing consumers shopping for new TV sets are looking for is enhanced sound," offered Rick Williams, general manager of marketing at General Electric TV. "Consumers who don't buy high-end sets with stereo capabilities now are going to be very disappointed in a year or two, when there's a lot of programming available in stereo."

'Video retailers now have the opportunity to drive sales by something other than price.'

The Beta camp, the pioneers in high-fidelity VCRs, is expecting a large portion of its VCR sales to be Beta Hi-FI.

"I can't give you an exact percentage of VCR sales, but I can tell you our Beta Hi-FI sales have been fabulous," said Paul Michie, executive vice president of Toshiba America.

"I think Beta Hi-Fi will represent 25 percent of our VCR sales," offered Kent Hammond, marketing manager for video products at Sanyo. "It's one more thing that identifies Beta as the technology leader."

Sony, the Beta kingpin, took advantage of CES to show off a new product it believes will help thwart erosion of Beta's 25 percent market share. Dubbed "Sprinter," it's an industrial tape duplicator that copies Beta tapes 80 times faster than real time. Although the Sprinter represents a $250,000 investment for duplicators, it should mean greater availability of Beta software, and eventually a drop in the price of Beta programming.

The VHS camp, however, has a similar device under development for its format, according to several VHS manufacturers, and could have the product on the market within a year.

"The Beta camp is determined to keep a presence, and the format is not going to go away overnight. How big a thing this high-speed duplicating device will be I don't know," commented Don Johnstone, senior vice president of N.A.P. Consumer Electronics. "But I know one thing—wherever we go with VHS prices, Beta will go lower."

Price wars caused by Taiwanese and Korean entries into the VCR market were also on the minds of manufacturers at the CES. The consensus was that it won't be until sometime in 1985 that these new players from the Orient will be in a position to have an impact on the market.

"It will be good while—at the very a least a year, especially with the shortage of components—before the Koreans or Taiwanese will be substantial factors in the VCR market," opined Alan Wallace, senior vice president of sales at Hitachi, echoing the sentiments of his industry colleagues.

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The Smart Decks feature multiple head designs. The VR4000 has six. The rest have four. The VR4000 also has true VHS Hi-Fi stereo sound and automatic noise reduction.

And the Smart Decks are all VHS and low profile with 8-hour recording capability. Most are front-loading with 136 channel capability, including cable. And they're all available with a unique wireless remote control. So customers with Zenith remote controlled televisions can use the VCR remote to control both the TV* and the deck.

Then there's the Dockable. One of the smallest and lightest

ZENITH AND VHS. A WINNING COMBINATION.

at the Summer CES

One factor already impacting the marketing of color TV, according to manufacturers, is the advent of the square picture tube. A year ago Toshiba made a splash at the CES with its FST square-screen units. At this year's summer show, virtually every video manufacturer exhibiting had at least one high-tech square-screen TV model in its new line.

"It will take the consumer a little while to get the message on square screens," explained Felix Chen, executive vice president of Sampo, which has two square-screen models in its new line. "But in a couple of years, the market will all be square screen."

The competition for components for high-end video products, from square picture tubes to complex chips for stereo-TV sets and VCR hi-fi, had manufacturers at CES talking about fourth-quarter shortages. But retailers found little agreement on this issue. In fact, some manufacturers expressed the belief that, spurred on by a record 1983 and bullish first half, production had been geared up to a capacity at which a glut might occur.

"We don't see any supply problems. There'll be plenty of merchandise throughout the second half," promised Michie of Toshiba, who is forcasting a 15-million-unit-plus year for color TV.

"Some people are talking about a 16-million-unit year in color TV and 8 million units in VCR," said Charles Daigneault, executive vice president of Sharp Electronics. "If the merchandise is available, we should hit it."

"We might be producing too much—not in VCR, but in color TV," added Jack Pluckhan, president of Quasar, reiterating fears he expressed at his company's recent sales meeting. "If that happens, prices could fall."

"There's a shortage already this year in video product," countered NAP's Johnstone, "and it will continue through the second half. This is especially true in high-end goods—don't look for any of that merchandise to be hitting the warehouse."

Although little consensus exists in the industry about video supplies for second half, there is agreement about where the opportunity lies for retailers to pick up sales and margin points in the latter part of the year.

High-tech is the profits message manufacturers are sending out. Recent developments, including sound enhancement, square screens, and the trend in design towards a slim high-tech look, manufacturers feel, have put merchandise on the floor in which consumers can see *and* hear a pronounced difference from past generations of video product.

"Retailers now have the opportunity to drive sales by something other than price," commented GE's Williams. "This year they have product that has benefits that can be demonstrated. Taking the time to explain the difference between leader and step-up models will pay off."

"There's the opportunity to create a big step-up market, with products like cable-ready, remote, and stereo color TV, along with VCRs offering high fidelity," concluded Frank Lann, president of N.A.P. Consumer Electronics. "Selling video has become like selling cars—you make profits by selling features."□

JIM ROBINS

TOTAL VIDEOCASSETTE RECORDERS

	Total Sales to Dealers in Units (Thousands)	Total Factory Sales in Dollars (Millions)	Average Value (Dollars per Unit)
1980	805	621	771
1981	1,361	1,127	828
1982	2,035	1,303	640
1983	4,091	2,162	528
1984 (proj.)	7,000	3,440	491
1985 (est.)	8,000	3,760	470

Source: EIA/CEG

portables around. And our Dockable has something really special. A plug that eliminates the need for unsightly cords and trays.

And there are two cameras to choose from, including the Video Movie, a real breakthrough. It's a camera and VCR in one small unit. And it weighs less than five pounds. It features direct playback through your TV without any additional attachments, or through the viewfinder.

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MARKET ANALYSIS

Home & Auto Audio

Sales Turn to Digital and A + V for Total Entertainment, Sound Reproduction

Racks still lead components, while quality and midis remain an issue

Though industry estimates of about 10- to 15-percent total-audio gains in '84 and 23 percent up in racks don't show it, many audio manufacturers are plotting even sharper increases this year.

Sony Consumer Products, for example, is looking at 35-percent gains, according to John Briesch, vice president of audio marketing. "The industry is up, digital sales are up, and product has received better acceptance," he said.

Helped by economic conditions and product styling and cosmetics that lend mass-market appeal to its systems, Fisher projects 20- to 30-percent increases this year. "Fisher's strength is not price points but feature benefits to consumers," reported Terry Stein, national sales manager.

And though one-brand systems, ranging from $500 to $2,000, perform well across all market segments — from first-time buyers to step-up and secondary buyers — Stein contends that "component sales are keeping pace with one-brand system growth." Cassette-deck business has also been strong for the firm.

With first-half 50-percent increases expected in one-brand systems and 15-percent gains in components, Kenwood Electronics is projecting overall 25-percent gains. Sam Rosenzweig, vice president of marketing, attributed these gains to Kenwood's established distribution.

And to capitalize on this business, the Spectrum rack series has been expanded. In addition, the high-end Basic component line includes high-quality midi-sized HD (High Density) pieces.

Experiencing a growth rate of 30 percent in one-brand systems in '83, Sharp Electronics is expecting another 20-percent increase in '84, due to the addition of integrated amps and tuners. But this is slight compared to its portable business, reported Bill Yanke, national sales manager. "Fashionable stereo with exciting new color variations are attracting a different class of consumers buying secondary and replacement units," he said.

Also attributing its success to its distribution patterns, partnership with dealers, and an extensive R + D program to develop new products such as its Cross Media A + V system and state-of-the-art VHS Hi-Fi, JVC forecasts 20-percent increases this year, according to Vic Pacor, assistant national sales and marketing manager, hi-fi.

In audio specialty outlets and major department stores, JVC's strength "is unequivocally components. Especially with more and more companies such as Kenwood and Sansui going the systems route, a void in component sales has been left for JVC to eat up," Pacor told MART.

Though many manufacturers, such as Rosenzweig of Kenwood, contend that one-brand systems and racks offer high-quality sound comparable to components, other manufacturers dispute this comparison.

"JVC components, such as the Super 8 amplifier, offer sophisticated technology which is meaningless to the systems buyer," suggested Pacor, adding that JVC's "leading edge in new products is in midi. In less than five years, it will be less economical for Japan to continue making two different sizes of products. Though the midi is currently more expensive, when jacket size becomes the only thing available, the trend will inevitably change."

Contrary to Japan's minimalist philosophy, American tradition invariably dictates that bigger is better — thus evoking America's passion for full-size units. "Full-size is more popular, but the midi business will increase as the price equalizes," predicted Sony's Briesch.

"Midi systems will receive greater acceptance in 1985," added Tom Yoda, Sansui vice president of marketing and sales of Sansui, whose CD player is compatible with its midi Super Compo system.

Introducing seven Studio Series racks, priced from $399 to $1,600 with remote CD, available this fall, a downsized FD1040SL player, and an audio console at $1,800, among others, Magnavox expects substantial gains over last year as a result of its sales organization. But as far as component size goes, Gary Thorne, vice president and brand manager, believes that if "the units are too small, the buttons will be too small." Yet cosmetics were considered in the design of the WE6904AS console — "it's important how it fits into the living room," Thorne explained.

As manufacturers continue to incorporate compact disc players into their lines, digital equipment has helped boost sales. "Digital has recreated awareness for sound quality, and has helped us return to basics, such as high-end amplifiers and speakers to handle the sound. This impact will continue as price on the players fall," commented Kenwood's Rosenzweig.

"Because of digital technology, people are now demanding more of their records," reported Richard Jackson, national sales manager of Heco, a West German maker of speakers and record-care accessories.

The compact disc player has also stimulated speaker sales. "Because of a surge in rack sales, components in general are suffering," observed John Geheran, vice president of marketing and national sales manager of Bose Corp. "But with the advent of CD and Beta, consumers have a reason to come back into the market. There's an enormous replacement market of consumers from the 60s generation and Vietnam vets who came back in the 70s with the latest equipment. And video hifi and commercial films using Dolby B are also generating awareness of speakers," he added.

Digital is here now, and a combination of stereo TV, VCR hi-fi, and audio + video is the next step in the evolution of quality sound reproduction. In fact, the marriage of audio + video is expected to arrive in full bloom by next year.

At the summer CES, a number of manufacturers showed audio-video receivers, adaptors, and decoders.

Technics, for example, showed an audio-video receiver, model SA-850, with broadcast TV stereo compatibility and built-in stereo decoder to receive the Zenith/dbx stereo TV standard, sanctioned in March. Also available by fall will be AM/FM stereo band receivers, featuring stereoplex circuitry, built-in tuner for TV, VCR, broadcast, and VHS, from a starting price point of $270. An adaptor can hook up any receiver, aimed at broadcasting stereo TV as well as offering bilingual transmission.

"An audio-video system is the link in a whole chain for an entire entertainment center, and it is the most exciting product to come along in a long time," remarked Paul Foschino, Technics product manager.

Since broadcast stereo TV was approved in March, ABC-TV has announced plans to broadcast the Olympics in stereo this summer. NBC-TV plans to reoutfit its stations.

"The marriage of audio and video gives the audio specialist an incredible opportunity, the likes of which haven't been seen in the past five or six years. But the specialist must educate consumers, put components together, and show them off properly," urged Chris Byrne, vice president of marketing at Pioneer Electronics.

Lester Cohen of the Audio Exchange retail chain, headquartered in Garden City, NY, believes audio and video offer not only an extra opportunity for retailers to make added sales but also a superior medium for the audio enthusiast. "We combine A + V with Beta or VHS HiFi to sell more speakers and reach a fringe market," he said.

"Audio and video is going to happen by June '85, especially because video is losing margins to high-volume sales," pointed out Pat Hart, Yamaha product manager. "The audio retailer averages 35-percent market margins, compared to 18 to 25 percent at best on the video side." □

LESLIE A. AZIA

ONE-BRAND COMPONENT SYSTEMS

	Total Sales to Dealers in Units (Thousands)	Total Factory Sales in Dollars (Millions)	Average Value (Dollars per Unit)
1980	177	80	452
1981	162	89	549
1982	319	145	455
1983	407	178	437
1984 (proj.)	500	200	400
1985 (est.)	570	210	368

Source: EIA/CEG

Where's the Micro? Digital Drought at CES

Home computers were conspicuous at CES by their absence

The big story in computer hardware from the Consumer Electronics Show was the lack of new product, to say nothing of the dearth of manufacturers still in the game. The summer show stood in stark contrast to recent shows, where attendees could be overwhelmed by all the then-new computer hardware on display.

The one company to introduce a new home computer aimed at the mass market was Commodore. Last year's winner in the home computer wars technically had two new computers to introduce at CES. The first, the "Plus-4," is a souped-up Commodore 64, with built-in software, including word processing and spreadsheet. The Plus-4 is an updated version of the Commodore 264, introduced at Winter CES, but never released.

"We delayed the introduction of the 264, because we felt the Plus-4 with its software was a more dynamic product," explained Jim Dionne, director of marketing of Commodore. "I know retailers may have some doubts about it, after the delay with the 264, but I promise we'll have the 264 out in time for the Christmas shopping season."

Commodore's computer intro, also expected to roll out fourth quarter, is the Commodore 16. This new introduction to the Commodore line is "an entry-level computer," designed to take the place of the popular Vic-20. The 16 carries a suggested retail of $100.

Atari was at CES with a new high-end game machine, the 7800 ProSystem, which it had announced prior to the show, but that was the only new hardware it had to display. However, Atari did announce that it had a high-end home computer under development that it would debut "sometime in the second half."

The new Atari computer will reportedly have a built-in, dual-density disk drive with 352K of RAM (the equivalent of 250 pages of information on a single floppy disk), plus built-in telecommunications abilities that will allow the user to access an Atari data bank, dubbed "Grapevine."

"We have big expectations for this new machine," said David Ruckert, senior vice president for marketing of Atari. "We think the biggest product opportunity is the home market, and we're going to exploit it."

Coleco was at CES with its home computing package ADAM to try to cash in on the home market. Plagued with manufacturing problems and bad press, the 1984 ADAM, according to its manufacturer, is being produced in adequate numbers to meet demand and has had the bugs worked out of it, including improved documentation.

"We're not limited by our production capabilities anymore," said Al Kahn, executive vice president of marketing of Coleco. "We'll have plenty of third-party software in the second half from companies like Spinnaker and Parker Bros. to support ADAM, too."

Very little else in computer hardware was available at CES, with the exception of manufacturers with product geared to the business market. It's unusual that so few players were at CES with product to offer, especially considering that industry analysts expect the unit sales to the home to grow by more than 10 percent this year. Apple and IBM, two companies that expect to sell sizable numbers into the home, were notable no-shows.

"The high cost of getting in and staying in is keeping new players out," observed Coleco's Kahn. "But that won't be the case for too long."

"I think by next winter's show, they'll be more people on the floor with product," predicted Commodore's Dionne. "I wouldn't care to speculate, however, who they are going to be."

The new players most likely to come into the home market by next winter are the Japanese consumer electronics companies that have agreed on the MSX operating system. These companies have already made substantial inroads in Japan. Prior to Summer CES, there was some speculation that the MSX camp would make major product introductions at CES, but aside from demo models from JVC and others, plus a limited showing from beleagured SpectralVideo, MSX computers were not to be found in Chicago.

"There's not enough production capacity yet for an MSX introduction in this country," explained Kay Nishi, vice president of Microsoft, the company that developed the MSX system. "The MSX camp has already sold 200,000 home computers in Japan and will sell 300,000 more by the end of the year.

"I think you'll see a substantial introduction of these computers in the States sometime in 1985. The home computer is going to become a common mass-market commodity item very soon."

Until the MSX camp makes its assault on these shores, as exhibited by CES, home computing retailers will have little product to choose from. The choices for the time being are simple — Commodore, Atari, Coleco's ADAM, or a step up into the realm of the Apple II family and IBM's PCjr. □

JIM ROBINS

Commodore's Jim Dionne expects more new computers on the floor at the Winter CES; this time the firm added one model, updated a second.

HOME COMPUTERS

	Total Sales to Dealers in Units (Thousands)	Total Factory Sales in Dollars (Millions)	Average Value (Dollars per Unit)
1982	2,000	1,300	650
1983	4,800	1,950	406
1984	5,300	2,200	410
1985	6,500	3,000	470

Source: EIA/CEG

Computer Market Will Be Big; *How* Big Is Up for Grabs

How big will computers be? Each research firm has a different estimate

Growing almost as quickly as the personal-computer market is the tidal wave of predictions by market-research firms on how big that market will be.

Research companies are scurrying to analyze the effects of the computer boom on American life . . . and to project how quickly those effects will be felt, and which directions the computerizing of America will take.

International Resource Development, for example, sees business and educational software as winning out in the software race, with little future for "personal" microcomputer software in the home other than for games. The company projects non-game home software—such as the familiar income-tax and budget programs—to represent only one percent or less of the annual software market over the next 10 years; game software should constitute between 25 and 30 percent of the total.

In the home-software market, IRD sees a shift in distribution away from specialty stores to more general types of retail outlets, with more consumer-electronics firms getting involved.

Because of the integration of software functions into more-comprehensive programs of improvements in computer systems, IRD sees the software-package market's growth slowing down in relation to the hardware market. The firm still estimates that the software market will increase from $1.6 billion last year to $14.7 billion in 1993, an annual growth rate of about 25 percent.

Over the next few years, the home-computer market will reach $4 billion in sales, with microcomputer software expected to hit the $12-billion mark by the end of the decade, according to research firm Arthur D. Little Inc.

The firm's computer specialists predict $4 billion in sales for home computers.

Future Computing Inc. projects a combined hardware/software volume of more than $40 billion by 1988, up from more than $10 billion in computer-hardware and software sales last year.

Software's share of the total computer market is seen growing from about 23 percent (of a $21-billion market) this year to 26 percent of a $27-billion market in 1986 and 28 percent of a $42-billion market in 1988. □

Computer-Software Industry Moves Toward Education, 'Edutainment'

[Continued from page 33]
puter consoles released at CES.

Atari also revealed that it would announce a new high-end home computer within two months, but refused to describe the machine in detail. The purpose of the announcement, said the firm's senior vice president, marketing, David Ruckert, was to alert third-party software developers.

And, behind closed doors, many retailers got to see prototypes of the long-anticipated MSX home computer developed by Microsoft Corp., of Bellevue, WA, in conjunction with a consortium of Japanese companies.

The MSX machines have captured a sizeable share of the Japanese market, consuming the complete production, according to Kay Nishi, a vice president of Microsoft who is intimately involved with the MSX project. But the unit will not cross the Pacific until demand for it can be met, Nishi said.

So, with the disappointing performance of the IBM PCjr in mind, Future Computing, the Richardson, TX-based market research firm, recently upped its estimate of the piece of the home-market pie Commodore, which already is the dominant factor, will command.

Agreed J. Bowmar "Bo" Rodgers, vice president, marketing, for Human Engineered Software, "Between 1.9 and 2.2 million Commodore 64s are out there, and about 75 to 90 percent of them are still being used."

Software publishers must write to the Commodore format to capitalize on that installed base. Those that release home-oriented programs first for the Apple II family or the PCjr look to release Commodore versions shortly thereafter.

Ed Wennerstrand, executive vice president of Neon Software, which markets programs directed to women, said, "The decision to write for the PCjr was a choice we made in development. We are sure IBM will stand by its machine." For the time being, however, Neon will market its Woman Ware line through the specialty channel. "We have to go where the hardware is," said Wennerstrand.

With the formats and distribution channels clearer than they have been since perhaps Day One of the home-computer era, publishers are looking for the reasons which motivate consumers to buy computers.

Sanford Bain, vice president, marketing, of The Scarborough Systems, told MART, "In business, consumers are buying solutions. For the home, they are presented with a variety of solutions."

The question publishers ask themselves, however, is "solutions to what?" Answered Ruckert of Atari, "We are looking for ways to make the micro better. The most appropriate uses for the computer are entertainment and education."

The new AtariLab LightLab program comes with 16K cartridge, light sensor, 'Magic Litestick,' and experimenter's guide.

Added David Fiore, advertising manager for the electronic-publishing division of Random House, which released 10 programs (six of which use characters from the Peanuts comic strip), "They may have been guilt-tripped into it, but education is a reason parents will buy a computer."

With industry statistics revealing that although games still generate the lion's share of revenue, home-productivity and education are the two fastest-growing categories, a bevy of publishers have launched either educational or "edutainment" lines.

HOME COMPUTER SOFTWARE

	Total Sales to Dealers in Units (Thousands)	Total Factory Sales in Dollars (Millions)	Average Value (Dollars per Unit)
1982	na	250	na
1983	35,000	600	17
1984	55,000	1,000	18
1985	80,000	1,450	18

Source: EIA/CEG

What's the difference? Edutainment, said Bain of Scarborough, "gets its validity from use in the home; educational programs get their validity from use in the school. We are not an educational publisher." His company's best-selling program, MasterType, first found a place in the home, then the school, Bain argued. In other words, edutainment must be fun to succeed; educational program must also achieve certain stated learning goals.

Within the education/edutainment genre, science has emerged as the hottest subject matter. HES, Atari, and Broderbund have all heavily invested in programs based on science, although each has taken a different tactic. Explained Dr. Sue Ann Ambron, who supervised the development of HES's science line, "Atari uses the computer as an instrument. Our programs are science simulations."

As an example of a science simulation, in Cell Defense, the first entry in the HES science series, players try to ward off viruses attacking different cell layers in the body, using the various defenses the body actually has at its disposal. Said Ambron, "We want to get kids excited about biology; we include a lab book in the documentation."

In contrast, in the Atarilab starter set, science students use the computer to actually conduct 100 experiments about light and heat. Another entry in Atari's Mindset educational series teaches users cardiopulmonary resuscitation.

Moving away from education, The Scarborough Systems has released a home-productivity program, Your Personal Net Worth. Hayden Software will also weigh in with a home-accounting program, because, according to its vice president of business-software development, "I couldn't find one that was suitable for me to use."

Still, warned Cohen of Video, Etc., "It is hard to sell a home-budgeting program to somebody who does not keep a home budget."

Most software publishers look forward to the Christmas season. Said Bain, "We have not seen the price breaks that we anticipated last year." Added Rodgers of HES, which dropped the price of Cell Defense from $34.95 to $29.95 after much deliberation and soul-searching, "Customers seem willing to move up the price ramp." But $30 seems a key price point for the genre of program HES markets.

According to Tricia Parks, vice president of Future Computing, $34.95 is a "magic" price point for education programs. "But that may be because consumers do not see that they get more for more-expensive programs," she said. Concluded Bain, "Consumers have fixed a price/performance ratio in their minds, and look for programs that match it."

According to Bain, "Buyers are buying." But Ruckert at Atari does not see explosive growth: "We are currently at 8-percent penetration, and I do not see 1984 as a boom year. I think we will have several years of modest growth."

He cautioned, "I think retailers were drawn in by the hype. They were expecting growth beyond what it was, and now they have to readjust their inventory."

This year, however, most software firms agree that the name of the game is marketing.

All the software publishers contacted by MART plan aggressive print-advertising campaigns in both general-consumer and computer-buff books.

The home-software industry may be drawing a deep breath, as business savvy, image, and advertising weigh more heavily than before. But the respite could be short—new hardware players are preparing to enter the field.

Creative Software, for example, plans to show programs for the Amiga and Mindset computers at next January's CES, according to Eliott Dahan, vice president, marketing.

Many analysts agree that an untapped market exists for home-computer systems in the $700-to-$1,200 range, the void Coleco tried to fill with its Adam.

With the price dropping sharply on the Apple IIe, that venerable machine could find even a larger band of followers. IBM has begun to repair the damage done to dealers by the PCjr. Big Blue has already eased the financial pressures; most observers feel IBM will make technological changes soon, too. And the shadow of MSX still lingers.

And don't forget the most-potent agent of change—those people working anonymously in their proverbial garages today.

Is the cost of entry too high in home-computer software these days? Said Chip August, vice president of new start-up Trapeze Software, which has based a game on life itself, "It's more expensive than it was three years ago, but not as expensive as it will be in three more years."□

ELLIOT KING

MART® 84

August 1984

Business Ideas Today's Retailer Needs to Know

A Gordon Publication

Starting from Scratch: Tackling a New Category

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- Dealers' Top 10 Complaints About Co-op
- Using Giveaways to Draw a Crowd
- How Dealers Advertise

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Spotlight:
VSDA President Frank Barnako

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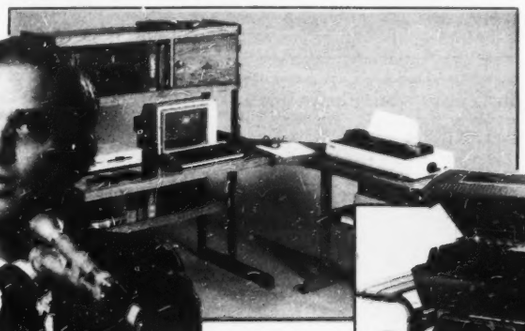

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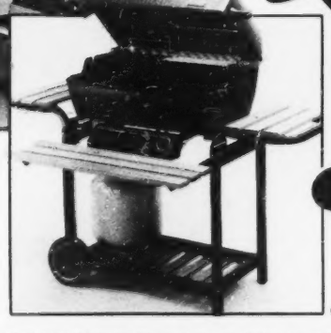

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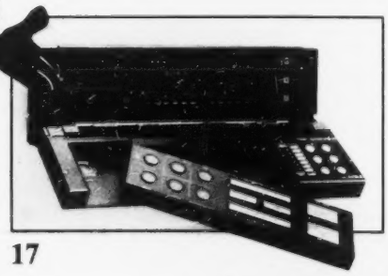

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Group Publisher
Martin Axel

EDITORIAL

Editor-in-Chief, Associate Publisher
Cathy Ciccolella
9 E. 38th St., New York, NY 10016
(212) 725-0530

Managing Editor
Leslie A. Azia

West Coast Editor
Elliot King
(714) 669-1990

Contributing Editors
John Foster, Art Weinberg,
Jack Blood, Lois Panosh

Art Director
Kathleen Pine

SALES

New York
Judith L. Miller
National Sales Manager
(212) 725-0530

Chicago
George Stevens
4825 N. Scott St. #62,
Schiller Park, IL 60176
(312) 671-2430

West Coast
Gene Raymond Monteleone
17621 Irvine Blvd., Suite 201,
Tustin, CA 92680
(714) 669-1990

Production Manager
Lee McCracken
(201) 361-9060

Circulation Manager
Mary Kuroda

Chairman of the Board
Theodore E. Gordon
President
Kenneth M. Nelson

VBPA ABP

GORDON PUBLICATIONS, INC.
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MART Editorial Offices:
9 E. 38th St. - Suite 701
New York, NY 10016
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JBL Markets Auto Speakers Through Electronics Stores

Speaker specialist JBL plans to expand the distribution channels for its new line of car audio speakers to include home audio, electronics, and appliance-specialty stores, according to Steve Caldero, national sales manager.

"Our high-end T series is sold through the installer market," Caldero told MART at a demonstration of JBL's new ER/G car speakers. "But for the ER/G line we are looking to places such as Highland Appliance in Detroit and Shaack Electronics in the Midwest as well," he said.

Introduced in January, the ER/G family represents JBL's entry into the mid-range car audio market. The first car stereo speaker to use graphite frames, the ER/G series also incorporates JBL's co-motional technology — a patent-pending configuration where the tweeter cone is directly attached to the woofer cone.

"Although many people expected us to enter the mid-range market," Caldero said, "they expected a 'me-too' product. Nobody expected the new technology JBL came up with."

The four ER/G models carry suggested retail prices ranging from $70 a pair for the ER/G 4.5 to $160 a pair for the ER/G 690.

"We have been able to expand the distribution channels because installation is so easy," Caldero pointed out. According to a JBL technical representative, the ER/G's snap-in mounting system works with virtually every car, van, and small truck on the market. The company studied nearly 335 car models while developing the mounting procedures.

According to JBL forecasts, its car audio business should grow about 18 percent, outstripping the industry's 10-percent annual growth.

"We keep redefining the high-end market, and we haven't found a limit yet," Caldero said.

Company officials perceive a trend toward the purchase of stereo components for automobiles. "The automotive business is fairly specialized. When you buy a Volkswagen, you don't have Volkswagen tires or Volkswagen shocks," argued Randy Patton, marketing director for JBL's consumer division. He believes car audio will imitate that model.

Patton asserted that JBL created the high-end car stereo market two years ago when it introduced its T series.

"Surprisingly, the best-selling model in the line is the most expensive. The second most expensive is the second best selling."

He said customers have been drawn primarily from the 18- to 25-year-old age category.

"They drive cars like Ford Broncos and Chevy Malibus, and a good car stereo is more important to them than another household appliance. They spend more time in their cars than at home," Patton said.

Initially scheduled to begin shipping at the end of February, shipments had been delayed until April. "But response from dealers has been strong," Caldero said. He reported that a call on key dealers in the San Francisco area netted $250,000 worth of orders.□ ELLIOT KING

VHS Tapes Pace '83 Cassette Gains

Industry sales of blank video cassettes soared 125.2 percent last year, although dollar volume — a reflection of decreasing prices — rose by only 58 percent, according to the International Tape/Disc Assn.

Unit sales of blank audio cassettes rose 7.25 percent last year, while dollar sales were up 5.8 percent.

ITA's blank-tape statistics include all U.S. sales — consumer retail, industrial, and bulk.

In the video-tape category, sales of VHS tapes showed much stronger gains than Beta cassettes: VHS unit sales rose 140 percent, to 65.9 million, while sales of Beta tapes were up 88.9 percent, to 21.2 million. Dollar-sales increases were also higher for VHS, with tapes recording a 61.4-percent gain, to $500.3 million, while dollar sales of Beta cassettes reached $151.5 million, up 48.1 percent.

Total video-cassette sales last year were 87 million units; the total dollar volume was $651.8 million.□

1983 Blank Video-Tape Sales

	Dollar Sales (000 omitted)	Change from '82	Unit Sales (000 omitted)	Change from '82
VHS	$500,341	+61.4%	65,857	+140 %
Beta	$151,490	+48.1%	21,156	+ 88.9%
Total	$651,831	+58 %	87,013	+125.2%

Source: ITA

Room at the Top

Gary Conway has been named national sales/marketing manager for *Panasonic's* newly formed VHS video-tape marketing department; he was previously with *General Sound*...

Code-A-Phone has named **Gary R. Bennett** national sales manager for the firm's consumer products division. He was formerly the division's eastern regional sales manager...

Allen J. Evelyn is the new vice president and general manager of *JBL Inc.'s* consumer products division; he was previously with Androbot...

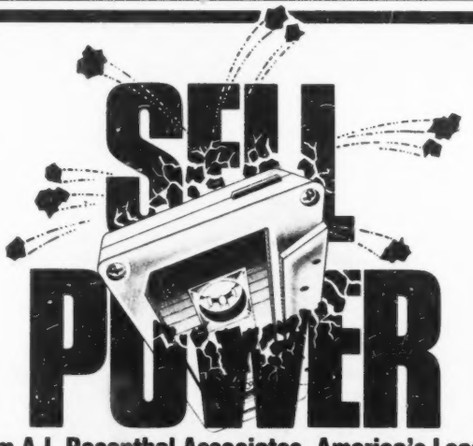
Newly named vice president of sales at *Comdial Consumer Communications* is **Steve Rand,** previously a principal with *Intra-Tech International Market Development Co.*...

RCA/Columbia Pictures Home Video has appointed **Evan Fisher,** previously with *Pioneer Video,* as national sales manager. Also at RCA/Columbia, **Ken Kamins** is now accounts manager; he had been with *MGM/UA Non-Theatrical division*...

Sony Consumer Products has named **Roy Harkey** manager of sales and marketing for its car stereo line; he was previously national field sales manager for car stereo ...

Vincent Maiello has been promoted to senior national accounts sales manager for *Mura Corp.*

Newly named national sales coordinator for *Mitsubishi Electric Sales America* is **J.T. (Terry) O'Flynn,** formerly with *Philco* ...



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